



LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Tuesday 8 November 2016 at 6.30 pm

PRESENT: Councillor S Choudhary (Chair), Councillor and Councillors Khan, Naheerathan and Perrin

Apologies for absence were received from: Councillors Daly and Shahzad

1. **Declarations of personal and prejudicial interests**

None.

2. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 28 June 2016 be approved as an accurate record of the meeting

3. **Matters arising**

None.

4. **Deputations**

5. **New Regulatory Oversight for LGPS Pension Schemes**

Members considered a report that inform them about the recent changes brought about by the Public Services Pension Act 2013 ("The Act") which have changed the regulatory framework of the LGPS Pensions Scheme, in particular, Section 13 of The Act. Gareth Robinson, Head of Finance informed members that Section 13 of the Act had introduced additional measures by which the activity of LGPS Schemes was overseen by Central Government, that has in turn appointed GAD (Government Actuary Department) to be the "appointed person" to deliver that function.

The Head of Finance continued that the legislation required the Government Actuary's Department (GAD), as the 'appointed person' to report on whether the LGPS funding valuations complied with four criteria: Compliance, Consistency, Solvency & Long-Term Cost Efficiency. He added that Section 13 was a review mechanism to ensure that all the valuations used appropriate assumptions and reported on a dry run process reviewing funding valuation methodologies and results that took place using 2013 data to determine where problems actually laid. Members heard that Brent Pension Fund met all four criteria however, it was clearly

flagged up as having a low overall funding level. Conrad Hall, Chief Finance Officer added that adequate strategy was in place to ensure that the funding level was closed, so as to avoid intervention by the GAD.

In the discussion that followed, members raised concerns about the low overall funding level asking whether the employee contributions were adequate in the current employment climate characterised by redundancies. Questions were also raised about the period over which the deficit could be addressed. Officers clarified that the employer contribution rate was appropriate within the current strategy being pursued and that as employee contribution was set by statute, it could not be changed by an employer. The Head of Finance added that the Fund would continue to comply with the requirements of GAD and that the results of the review by GAD when completed in 2018 would be reported to the Sub-Committee.

RESOLVED:

- i) that it be noted that the Pension Fund would need to comply with the section 13 process, responding to all queries and requirements of Government's Actuary Department (GAD).
- (ii) that it be noted that results on the review by GAD would come back to this Committee when GAD had completed its report (early 2018)

6. Triennial Review

The Sub-Committee considered a report from the Chief Finance Officer which provided updates on the progress in the Triennial Review. The report also requested members to approve the draft FSS (Funding Strategy Statement) for consultation and delegate to officers to fine-tune items within the FSS with regard to the individual employers.

Gareth Robinson (Head of Finance) explained that the FSS was the key document that set out the Pension Fund's strategy to achieve an appropriate funding level and manage risk appropriately whilst the Whole Fund identified the Pension Fund's overall funding level. He continued that The FSS included the time-frame through which the Pension Fund would be expected to become fully-funded by the various type of employers and expectations around guarantees. The statement further explained how the Pension Fund measured its liabilities, its approach to affording to pay for them and how it complied with regulatory requirements. The Triennial Review would then set the contribution rates of the various employers for the period 2017/18 through 2019/20. Gareth Robinson then invited Alan Johnson and Douglas Green, representatives of Hymans Robertson, to present to the Sub-Committee on their initial whole fund results.

Douglas Green, with reference to slide presentations, outlined the liability assumptions which fell into 2 broad categories; financial and demographic. Under financial, assumptions were made of investment return, inflation, pay increases, pension increases taking into account economic outlook, actual scheme assets and historical pay growth. Under demographic, assumptions were made of life expectancy, retirement age and causes, withdrawals and marriage statistics and considering population trends, members' social status and past scheme experiences. He then drew members' attention to the Whole Fund results which

revealed the deficit amount and the overall funding level. Douglas Green in continuation explained the sources of deficit changes between March 2013 and March 2016 and added that the FSS would establish a clear and transparent fund specific strategy and contributions.

Alan Johnson and Douglas Green were thanked for their presentation.

Members then asked questions about the impact of redundancies, early retirements and shared services on the Fund's strategy and funding levels. Conrad Hall explained that the Council no longer pursued a policy of enhanced or added years for early retirement and that as capital cost was paid into the account, there was no significant impact on the fund's strategy. He added that the shared services had no impact as it did not affect the investment policy. He emphasised that as employer contributions were the single largest component in the Pension Fund's yearly cash inflow, appropriate contribution rates by the various employers were necessary for the Pension Fund to improve its funding level. Members' noted that the contribution strategies would bind the employers to differing amounts over the next three years.

RESOLVED:

- (i) that the update on the Triennial Review process be noted;
- (ii) that the results of the Triennial Valuation – whole fund results be noted;
- (iii) that the Current Draft of the Funding Strategy Statement (FSS) be agreed;
- (iv) that delegated authority be granted to Council Officers for the completion of certain detailed elements with the Fund Actuary, when employer-level calculations become available;
- (v) that it be noted that the FSS would be consulted with employers as required by LGPS Regulations;
- (vi) that it be noted that the FSS would come back to this Committee for formal ratification after consultation had ended;
- (vii) that the decision on Council contribution rate with the Fund Actuary using this modelling and the principles of the FSS be delegated to the Chief Finance Officer.

7. Monitoring report on fund activity for the quarter ended September 2016

Members received a report that provided a summary of the Fund's activity during the quarter ended 30 September 2016. The report also examined the economic and market background, and investment performance with comments on events in the quarter. Members noted that the Fund increasing trend in its value continued into the current quarter, 3 which saw an increase in value by 5.8% from £708.4m to £749.7m. In addition, the Fund received sale proceeds of £17.8m from the Aviva UK property fund, £5.5m from Private equity distributions and £4.5m call payment made to Alinda Parallel III.

Gareth Robinson, Head of Finance, informed members that with Capital Dynamics entering a mature stage in its portfolio and distributing large amounts of cash, the

Fund's cash position was such that it now had cash on hand to re-allocate to its intended strategic allocation. He added that although delays within the CIV had made this challenging, it would not change the Fund's strategy of generating better net returns through reducing fees by investing through the London CIV. It does mean that the Fund would seek other options in the immediate term and look at options with regards to its cash. Members also noted the contents of the Independent Adviser's report, attached as an appendix to the monitoring report.

RESOLVED:

that the monitoring report for the quarter ending September 2016 be noted.

8. Update on the London CIV and the Fund's Investment Options

The Sub-Committee received a report that provided an update on the London CIV and the timescales attached to making Investments within it. The report also updated on challenges the CIV due to delays with on-boarding investments and selecting new managers.

Gareth Robinson (Head of Finance) informed members that due to significant delays in trying to get the investments to pool within the Authorised Contractual Scheme (ACS), there had been problems for the London CIV in relation to on-boarding LGIM. He clarified that LGIM reduced its fees so significantly that the London CIV chose to keep them out of the London CIV pool. This has posed a problem for the London CIV in that it would not achieve some of the income that it anticipated, resulting in short term funding problems. The London CIV has informed the various Pension Funds that it would need to identify additional monies over the next couple of years to pay for the operations of the CIV, estimated about £5m to £6m over the next two years to pay for the appropriate level of skills. The London CIV agreed to send out a briefing note explaining the situation in greater detail and presenting a case to the London funds for a route to covering the anticipated gap. He undertook to share with the Sub-Committee, the contents of the briefing note, when it was received.

RESOLVED;

that the update the London CIV and the Fund's investment options be noted.

9. Short Term Cash Investment

Members considered a report that sought to address the challenge of having large cash balances on-hand awaiting investment decisions, achieving very low or nil returns, while being placed with a single bank. The measures being proposed would allow the Pension Fund to be able to invest short-term quickly and reduce the risk of having up to 10% of the Fund at risk due to being held by a single bank that did not meet the Council's own Treasury Management Investment criteria.

In setting the background, Gareth Robinson (Head of Finance) stated that the higher than anticipated cash balances arose from delays within the Collective

Investment Vehicle (CIV) through which the Fund planned to invest the majority of its funds in the near future. In order to tackle appropriately the short-term issue of investing excess cash, the Pension Fund wanted to make use of the existing Treasury Management facility within the Council, the Treasury Management strategy, which was considered prudent and low-risk. He clarified an alternative option of loaning the excess cash to the Council and the risks involved and recommended the option of investing directly via the Treasury Management facility.

RESOLVED:

- (i) that use of the Treasury Management function to make short-term investments and utilising Brent Council's existing framework to protect the excess cash of The Fund be agreed;
- (ii) that the responsibility for making short-term cash investment decisions be delegated to the Chief Finance Officer.

10. Minutes of Pension Board

RESOLVED:

that the minutes of the Pension Board be noted.

11. Annual Report 2015-16

Members received the annual report and accounts of the Brent Pension Fund for the year 2015/16.

RESOLVED:-

that the annual report and accounts of the Brent Pension Fund for the year 2015/16 be noted.

12. Any other urgent business

None.

13. Exclusion of press and public

RESOLVED:

That press and public be excluded from the remainder of the meeting as the reports to be considered contained a category of exempt information as specified in the Local Government Act 1972 namely:

"Information relating to the financial or business affairs of any particular person (including the authority holding that information)".

14. Funding strategy statement (FSS)

Members received a report prepared by London Borough of Brent, (“the Administering Authority”) in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. The report set out the Funding Strategy Statement (FSS).

Representatives of Hymans Robertson LLP gave a detailed presentation and answered members’ questions.

RESOLVED:

that the Funding Strategy Statement (FSS) of the London Borough of Brent Pension Fund (“the Fund”) be noted.

15. **Actuarial Contract Re-procurement**

The Sub-Committee considered a report that requested the Chief Finance Officer to complete all necessary requirements regarding the re-procurement of the actuarial contract so that it could come to the Pension Fund Sub-Committee at the earliest possible time for approval.

Gareth Robinson, Head of Finance, introduced the report and referenced the detail section together with the financial implications.

RESOLVED:

- (i) that delegated authority be granted to the Chief Finance Officer as S. 151 officer to finalise any necessary requirements on Actuarial Contract, with the intent of bringing the contract back to the earliest possible appropriate meeting of the Sub-Committee in 2017;
- (ii) that the actuarial contract should have a term that did not conflict in the future with the Triennial Review;
- (iii) that the actuarial contract be extended so that it did not conflict with Year-End processes in 2017

The meeting closed at 8.40 pm

S CHOUDHARY
Chair